

SECRETCENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

Grain Embargoes: Opportunities for Circumvention

Summary

As evidenced by the 1980 economic sanctions against the USSR, a grain embargo is difficult to maintain and limited in its effectiveness. The complexity and secrecy associated with the international grain market provide ample opportunity for circumventing an embargo. During the last embargo, the Soviets were able to replace half of the denied US grain through direct purchases from the major non-US grain exporters.

25X1

This paper was prepared by [redacted] 25X1
[redacted] Resources Division, Office of Global Issues and 25X1
coordinated with the Office of Soviet Analysis and the Office
of Europe. Research for this paper was completed on
5 January 1982. Comments and queries are welcome and should
be addressed to the Chief, Agriculture Trade Branch, OGI, 25X1
[redacted]

25X1

SECRET

SECRET

25X1

GRAIN EMBARGOES: OPPORTUNITIES FOR CIRCUMVENTION

25X1

The complexity and secrecy associated with the international grain market provide ample opportunity for circumvention of embargoes. The amount of leakage during an embargo depends on:

- o Length of the embargo. The longer the embargo, the greater the erosion in the agreement; time facilitates the adoption of deceptive measures.
- o Price premium. The greater the premium the embargoed country is willing to pay, the greater the circumvention.
- o Cooperation among foreign governments. Failure of any exporter government to control grain sales will substantially weaken an embargo. Importing countries can facilitate circumvention by a myriad of schemes such as swapping contracts, falsifying destination, and arranging transshipment or reexport.
- o Cooperation of international grain companies and brokers. Cooperation depends largely on company perception of self-interest, including exposure to loss from violation of the regulations versus the prospective profits from circumvention deals.
- o World market conditions. Circumvention is easier when large stocks of surplus grain exist in the world.

25X1

The Marketplace

Grain, like many other commodities, is traded via a long-established international network of government trading agencies, large multinational trading firms, and small independent firms. The Canadian Wheat Board (CWB) and Australian Wheat Board (AWB) are the two premier government entities, although the European Community (EC), Argentina, South Africa, Thailand, and Brazil also have centralized export agencies. Large multinational trading firms such as

SECRET

25X1

SECRET

Continental, Cargill, and Dreyfus handle most of the world trade in grain because of their dominant position in the United States, the largest exporter. Primarily of European origin, each of these firms is diversified and vertically integrated, giving them wide influence here and abroad. Smaller firms in Europe and Asia often specialize in trade within a certain region and/or in a particular product. [REDACTED]

25X1

Foreign Government Control Mechanisms

Canada. The CWB maintains control over the destination of Canadian wheat by selling directly to foreign buyers and handling or closely coordinating delivery. On the other hand, a large portion of barley is sold to private firms (at Canadian ports) and little control has been exerted on destination. [REDACTED]

25X1

Australia. The AWB has always kept very close control over wheat sales--either dealing with foreign governments or requiring sales to private firms (at Australian ports) be made only with named destinations. Barley and other coarse grains are handled by state boards and private firms, and, as with Canada, less control results. [REDACTED]

25X1

EC. The EC Grain Management Committee decides how much of each type of grain will be offered for export and what subsidies will be paid in order to sell its higher cost product in the world market. Through export rebate certificates, the EC can require proof of destination for payment of the export subsidy to the exporting firm. Following the 1980 embargo, the USSR was excluded from the list of destinations eligible for export rebates. The Soviets were still free to purchase unsubsidized EC grain--but the price differential of up to \$100 per ton over the world price made such transactions highly uneconomic. [REDACTED]

25X1

Argentina. The Argentine Grain Board plays a minor role in controlling grain exports and allows private firms to make sales without disclosing the grain's destination. [REDACTED]

25X1

Other exporters. South Africa and Thailand each have centralized selling agencies; however, most of their respective corn crops is sold to private firms at the loading ports at which time all government control ceases. Brazil also uses centralized selling agencies but a large part of its soybeans and soybean meal continues to move via private firms. [REDACTED]

25X1

-2-

SECRET

25X1

SECRET [REDACTED]

25X1

Role of the Private Firms

The large multinational trading firms dominate world trade in grain and oilseeds, handling the bulk of exports from the United States, Argentina, Brazil, the EC, South Africa, Thailand, and other smaller suppliers. They take part also in a large portion of Canadian and Australian shipments. [REDACTED]

25X1

Each firm maintains a worldwide network of offices and agencies that provide nearly instantaneous information on all factors affecting the grain market. This affords them a strong position in dealing with exporting or importing country governments. Indeed, sometimes they will act as the agent of a government for a set fee per ton. However, they much prefer to act as the principal, or position taker (taking ownership of grain), consummating both purchases and sales. Firms have been made exclusive agents by government diversification, and integration, the firms can offer the buyer a complete package of a delivered commodity, financing, and related services. [REDACTED]

25X1

In addition to the several large multinational firms, a host of small firms participate in the market. Often their business rests on one individual's trading expertise, access to particular markets, or knowledge of a local region or type of commodity. Another important actor in the market is the broker, who acts as an agent between buyer and seller for a fee but never takes ownership of the commodity. Use of a broker facilitates secrecy, which may be politically or economically important. [REDACTED]

25X1

Methods of Circumvention

Various devices are available to circumvent an embargo:

- o Swapping (or shifting) contract destinations. Under this scheme, grain sold to a nonembargoed country is repurchased by the supplying firm and sold to the embargoed country. The firm then purchases more grain for the nonembargoed country.
- o Direct buying. An embargoed country can arrange for private firms to buy grain from various exporting countries, load it on vessels chartered by the firm, declare a non-embargoed destination, change destinations in transit, and proceed to an embargoed port. In the cases of Argentina and Brazil, no falsification of destination would be required.

SECRET [REDACTED]

25X1

SECRET

25X1

- o Transshipment or Reexport. The embargoed country could use a private firm to buy grain at a foreign transshipment port or could have the firm buy grain in an exporting country for transshipment or reexport. Northern European ports--Antwerp, Rotterdam, or Hamburg--are the most likely to be involved. Large quantities of grain have moved to the USSR via these ports during years of heavy Soviet grain imports; a substantial flow in circumvention of an embargo probably would be detected within several weeks. Reexports from ports not normally looked on as centers for the grain trade would be harder to monitor. East European ports are less likely to be used because of limited throughput capability.

25X1

An Example: The US Embargo of Grain to the USSR

In response to the Soviet invasion of Afghanistan, the United States unilaterally suspended US agricultural exports to the USSR on 4 January 1980. That action immediately denied the USSR 17 million tons of US grain, 1.2 million tons of soybeans and meal, and smaller quantities of poultry scheduled for delivery in the year ending 30 September 1980.

25X1

The Soviets were able to make up about half of the 17 million tons of embargoed US grain. We estimate that Soviet grain imports in the 1 October 1979-30 September 1980 year totaled nearly 28 million tons, 8.4 million tons short of preembargo expectations. Imports included 8.4 million tons of US grain and 19.2 million tons from other origins. Without the suspension, we had expected the United States to export about 25 million tons and other suppliers 11 million tons to the USSR.

25X1

The USSR was able to increase its share of imports from major non-US grain exporters and to buy substantially more grain from a number of non-traditional suppliers. None of the principal grain exporters--Argentina, Australia, Canada, and the EC-- had agreed to cut back grain sales to the Soviets although most stated they would not replace directly or indirectly the 17 million tons of US wheat and corn denied. Argentina soon made it clear that it was not going to cooperate, and the other exporters could not be pinned down to specific export ceilings but only to "traditional or historic levels." About 75 percent of the estimated 8.6 million tons of grain replacement came from Argentina, Canada, and Australia. Indeed, shipments to the USSR in 1979/80 were a record for all of the major exporters except Canada. The other 25 percent

-4-

SECRET

25X1

SECRET [REDACTED]

25X1

was imported from a number of other exporters, including Sweden, Thailand, Eastern Europe, and France. [REDACTED]

25X1

Because the USSR was able to obtain overtly grain from these sources, it did not need to take recourse to other means of circumvention of the embargo. We have no evidence that large amounts of US grain were diverted through third countries to the USSR. (Based on incomplete information we estimate that 500,000 tons of US grain could have been shipped by such a route--divided between Romania and northern European transshipping operations. Similar quantities of US soybeans and meal were probably transshipped through northern European ports.) And reports from Western Europe claiming large amounts of US grain were transshipped through Eastern Europe are exaggerated and unsubstantiated. Larger East European imports were needed to support livestock production goals because of a shortfall in their 1979 harvests. We estimate that less than a million tons out of Eastern Europe's total import of 17 million tons--3 million more than 1978/79--were used to replace exports of domestic grain and transshipments to the USSR. [REDACTED]

25X1

-5-

SECRET [REDACTED]

25X1